



**Single Electricity Market
(SEM)**

Capacity Market Code

Terms of Reference for the Year 2 Market Audit

SEM-20-073

16 November 2020

1. BACKGROUND

Paragraph B.11.2.1 of the Capacity Market Code (“CMC”), requires the Market Auditor to conduct an audit of the CMC, its operation and implementation of the arrangements, procedures and processes under the CMC at least once a Year.

Paragraph B.11.2.3 of the Code requires the Regulatory Authorities (RAs) to consult with Parties on the terms of reference for the audit. Paragraph B.11.2.4 requires the RAs to specify annually the precise terms of reference for the audit following this consultation process.

The purpose of this paper is to set out the RAs proposed approach for the scope of the Year 2 audit together with the reporting arrangements.

The first Capacity Market Audit was conducted in 2019/20 and following this the RAs have revisited the original Terms of Reference (TOR) set out in SEM-17-023¹. Following the completion of the first Capacity market Audit, it is important to consider whether or not the scope for the next Audit report should be changed. This consultation is seeking views on this question.

The Year 1 Market Audit has now been completed and entailed the following:

1. This first audit covered the period from 15 December 2017 – 30 April 2019 and incorporated the following capacity Auctions:
 - a. T-1 CY2018/2019 – which took place on 15 December 2017;
 - b. T-1 CY2019/2020 – which took place on 13 December 2018; and
 - c. T-4 CY2022/2023 – which took place on 28 March 2019.
2. The basis of the Auditor’s Opinion was be conducted under the International Standard on Assurance Engagements (ISAE 3000).

¹ <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-17-023%20CRM%20Auditor%20%20Monitor%20Decision%20Paper.pdf>

2. PROPOSED YEAR 2 AUDIT SCOPE

The Year 2 audit will cover the 12-month period of 1 May 2019– 30 April 2020. This audit report will incorporate the following Capacity Auctions:

1. T-1 CY2020/2021 – which took place on 26 November 2019;
2. T-2 CY2021/2022 – which took place on 5 December 2019; and
3. T-4 CY2023/2024 – which took place on 27 April 2020.

The RAs also propose that the Auditor’s Opinion continue to be conducted under the International Standard on Assurance Engagements (ISAE 3000).

Taking the following into account:

- There have not been any changes to processes within the CRM as yet (for example, the Secondary Trading Process not implemented within the window of the Year 2 report); and
- The view that the issues highlighted in the Year 1 report should not persist.

The SEM Committee propose that the Year 2 audit report will mirror those covered in Year 1. This includes:

- Accession and Registration;
- Default, Suspension and Termination;
- Qualification;
- Operation of the auction and award of capacity;
- Secondary trading;
- Implementation agreements;
- SO and other Charges;
- Invoicing and Payment;
- Credit Cover management;
- Disputes;
- Modifications; and
- Design Authority / Code development and Systems Upgrade.

Further information describing the scope and methodology that is proposed to be employed by the Capacity Market Auditor is described within sections 3 and 5 of the first audit decision paper, SEM-017-023.

Please note the RAs are cognisant of the extraordinary circumstances relating to the COVID-19 pandemic, resulting in new protocols and working arrangements. The RAs do not however, foresee that it will impede the ability to complete the Audit as proposed for 2020. The RAs will take a pragmatic view upon any implications that the COVID-19 pandemic has on the Audit, and any subsequent decisions required.

3. CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the proposed Capacity Market Audit Scope for the Year 2 report.

Responses to this Consultation Paper should be sent to Kevin Lenaghan (Kevin.lenaghan@uregni.gov.uk) and Kevin Baron (Kevin.Baron@uregni.gov.uk) by 17.00 on Monday, 14 December 2020.

Please note that we intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities are subject to Freedom of Information legislation.

Further to their consideration of the comments received, the RAs will publish their decision on the terms of reference for the Year 2 SEM Capacity Market Audit.

Once the terms of reference for the Year 2 SEM Capacity Market Audit have been decided, they will be issued in a Decision Paper. The Auditor will begin work on an interim audit to report to the RAs in Q1 2021.